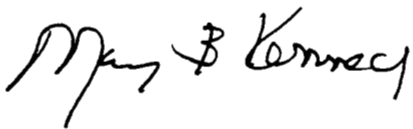
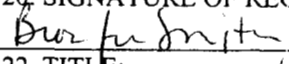


<b>TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL</b>		1. TRANSMITTAL NUMBER: 02-26	2. STATE: Minnesota
<b>FOR: HEALTH CARE FINANCING ADMINISTRATION</b>		3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
TO: REGIONAL ADMINISTRATOR HEALTH CARE FINANCING ADMINISTRATION DEPARTMENT OF HEALTH AND HUMAN SERVICES		4. PROPOSED EFFECTIVE DATE October 1, 2002	
5. TYPE OF PLAN MATERIAL (Check One):  <input type="checkbox"/> NEW STATE PLAN <input type="checkbox"/> AMENDMENT TO BE CONSIDERED AS NEW PLAN <input checked="" type="checkbox"/> AMENDMENT COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)			
6. FEDERAL STATUTE/REGULATION CITATION 42 CFR §447.252		7. FEDERAL BUDGET IMPACT: a. FFY '03                      \$0 b. FFY '04                      \$0	
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:  Att. 4.19-D (NF), pp. 1-168		9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable):  Att. 4.19-D (NF), pp. 1-159	
10. SUBJECT OF AMENDMENT: Methods and Standards for Determining Payment Rates for Services Provided by Nursing Facilities (Not State Government-Owned or Operated)			
11. GOVERNOR'S REVIEW (Check One): <input checked="" type="checkbox"/> GOVERNOR'S OFFICE REPORTED NO COMMENT <input type="checkbox"/> OTHER, AS SPECIFIED: <input type="checkbox"/> COMMENTS OF GOVERNOR'S OFFICE ENCLOSED <input type="checkbox"/> NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL			
12. SIGNATURE OF STATE AGENCY OFFICIAL:  		16. RETURN TO:  Stephanie Schwartz Federal Relations Unit Minnesota Department of Human Services 444 Lafayette Road No. St. Paul, MN 55155-3852	
13. TYPED NAME: Mary B. Kennedy			
14. TITLE: Medicaid Director			
15. DATE SUBMITTED: December 16, 2002			
FOR REGIONAL OFFICE USE ONLY			
17. DATE RECEIVED: 12/23/02		18. DATE APPROVED: 3/7/03	
PLAN APPROVED - ONE COPY ATTACHED			
19. EFFECTIVE DATE OF APPROVED MATERIAL: 10/1/02		20. SIGNATURE OF REGIONAL OFFICIAL: 	
21. TYPED NAME: CHARLENE BROWN		22. TITLE: Deputy Director, CMSO	

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**METHODS AND STANDARDS FOR DETERMINING PAYMENT RATES  
FOR SERVICES PROVIDED BY NURSING FACILITIES  
(NOT STATE GOVERNMENT-OWNED OR OPERATED)**

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**METHODS AND STANDARDS FOR DETERMINING PAYMENT RATES  
FOR SERVICES PROVIDED BY NURSING FACILITIES  
(NOT STATE-GOVERNMENT OWNED OR OPERATED)**

**SECTION 1.000 INTRODUCTION**

**SECTION 1.010 General Purpose.** The purpose of the Minnesota Medicaid methods and standards for determining payment rates for nursing facilities, which are not owned or operated by the state, is to provide for payment of rates in conformity with applicable state and federal laws, regulations and quality and safety standards. In determining the rates, the Commissioner of the Department of Human Services will take into account the mix of resident needs, geographic location, and other factors. Minnesota has in place a public process which complies with the requirements of Section 1902(a)(13)(A) of the Social Security Act.

Nursing facilities participating in the Minnesota Medical Assistance Program are paid either by a prospective rate-setting methodology described in Sections 1.000 to 21.000, or by the contractual rate-setting methodology described in Section 22.000. These methodologies, established in Minnesota statutes and rules, are described in this attachment.

**SECTION 1.020 Overview.** A very brief description of the overall rate setting mechanism may be helpful. Cost reports are submitted annually. Nursing facilities have a common reporting year of October 1 to September 30. The common rate year of July 1 to June 30, lags the report year. The submitted cost reports are desk audited to determine allowable costs and then subject to various other cost category limitations. The rates that are set are subject to appeal. Rates may be adjusted retrospectively for field audit and appeal resolutions. Nursing facilities in Minnesota cannot charge private paying residents rates which exceed the rate for medical assistance recipients receiving similar services in multiple bed rooms.

Minnesota's basic rate setting formula establishes an array of prospective payment rates that vary with a resident's care needs. The rate is composed of a care related rate plus other operating rate plus an inflation adjustment factor plus property payment rate. The total payment rate may include a shared efficiency incentive of up to \$2.25 per resident per day, provided the nursing home operates below the other operating cost limitations. This can be summarized by the following:



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#### **A. Care Related Costs Until July 1, 1999**

1. This type of cost is based on allowable care related costs from prior reporting years for each nursing facility. Only the nursing component varies with a resident's case mix.

2. Resident days and nursing care costs are adjusted using case mix weights to determine proportion of costs allocable to each of eleven payment classes.

3. There are eleven rates for each nursing facility based on the relative resource use and case mix needs of the resident.

4. Until July 1, 1999, homes are grouped by three geographic locations which set limits on rates. Special purpose or characteristic homes may be treated differently for purposes of applying rate limits.

5. Homes can also trade off nursing and other care related expenditures within the combined limits for those two cost categories. Beginning July 1, 1998, these two limitations do not apply, except for purposes of determining a facility's efficiency incentive.

6. The care related costs include nursing salaries and supplies and non-prescription drugs.

7. The other care related costs include food costs, social services, activities etc.

#### **B. Overall Spending Limits Until July 1, 1999**

1. Pursuant to Section 11.047, the operating rate paid to a nursing facility will not be more than its prior year's allowed operating costs plus inflation plus a factor above inflation (on a per diem basis).

2. Pursuant to Section 11.047, a nursing facility determined to be high cost when compared to similar nursing facilities shall have its per diem costs reduced.

#### **C. Other Operating Costs Until July 1, 1999**

1. These costs are grouped by geographic location to set limits. Beginning July 1, 1998, nursing and other care related expenditures do not apply, except for purposes of determining a facility's efficiency incentive. Similarly, the maintenance and administrative cost categories no longer apply.

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2. There is an efficiency incentive. Homes can receive an additional payment if costs are under the Other Operating Cost limit.

3. The other operating costs include such costs as remaining dietary, laundry and linen, housekeeping, plant operations and maintenance, general and administrative, and the remaining payroll taxes and fringe benefits.

#### **D. Adjustment Factor**

1. Until July 1, 1999, all operating costs are updated annually by a 21 month inflation factor. The 21 month inflation factor accounts for the 9 month lag between the end of the reporting year (9/30) and the beginning of the rate year (the following 7/1). The Department contracts with an econometric firm to provide economic change indices for use in determining operation cost payment rates.

2. Until July 1, 1999, limits are established for a base year and are adjusted annually by a 12 month inflation index for the time period between the midpoints of cost reporting years. The process of indexing limits now extends to the overall spending limits.

3. Certain costs such as real estate taxes, special assessments, licensing fees, Public Employee Retirement Act pension contributions, and preadmission screening fees are passed through.

#### **E. Property Payment**

1. For the period July 1, 1992, to September 30, 1992, property rates continued as established under the current plan; that is, they will continue to be "frozen" with certain exceptions.

2. After September 30, 1992, a new property system took effect. That system establishes a minimum property rate equal to the greater of their current "frozen" property-related payment rate or \$4.00 per resident day. This rate may be subject to adjustment due to several factors which include:

a. An incremental increase as determined utilizing the State's former rental system with certain modifications such as a higher equipment allowance, adding the actual cost of a major projects with the application of a limit on investment, or the sale of the nursing facility.